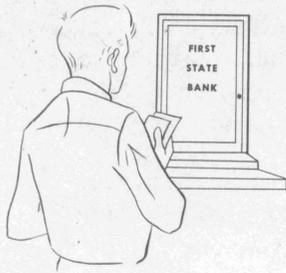


Mrs. Dorothy Halland

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L-271

Money Management Series



# USING CREDIT

## in 4-H Demonstrations

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Many 4-H Club members begin their club work with some demonstration which requires little money. Later they may want to enlarge their demonstrations and find that more money is needed. If you face such needs, this leaflet may be helpful. Remember, your parents and other 4-H leaders have learned to use credit for such necessities.

### WHAT IS CREDIT?

"Credit," as used in this leaflet is the ability of an individual to get things needed from others for *your promise to pay for them at some specified future time*. Money needed for your 4-H demonstrations may be borrowed "on credit" if you convince the lender of your ability to repay the loan.

### IMPORTANCE OF CREDIT IN MODERN LIVING

Your banker knows that farming is big business. He has learned it requires better livestock and more machinery, insecticides and special equipment than at the time your parents started. You may have heard your father or a neighbor say, "It takes lots of money to keep the farm going."

Here are some facts that explain why farm expenses have become greater:

1. Farms are larger--one man using modern machinery can farm several times as much land as he could with work-stock.
2. Family living involves the use of more services and "convenience" goods such as butane, electricity and labor-saving appliances.
3. The price of almost everything is higher.

Each crop and type of livestock raised requires cash expenditures before the products are ready to sell. Someone has to pay for these production expenses and usually it is the person who produces the crops or livestock. If you are to become a successful operator in any business, you must learn how to use credit wisely. Experience in planning for and using credit is the best teacher.

### DECIDE WHETHER A LOAN IS NEEDED

If you want to learn how to make credit "work for you," it is necessary to understand common lending practices. Discuss your 4-H demonstration program with your parents and decide whether you should borrow the money needed for it. Sometimes it may be more desirable to borrow money from the bank rather than your father for two reasons; namely, you learn how to deal with business matters and you begin to establish a credit rating. "Credit rating" is your business reputation, or the record you have made of ability and willingness to meet business obligations.

### MAKE A PLAN FOR EACH LOAN

Whether your 4-H program involves the purchase of a beef calf, shrubbery and fencing for your landscape or a sewing machine, a plan should be made showing the purposes for which a proposed loan is needed. It is better to arrange for the total amount needed in the beginning rather than having to get a second loan later. Most lenders will arrange to advance portions of the loan over a period of months as it is needed. This tends to reduce the cost of the loan compared to getting all the money at the beginning.

Another part of your plan will be to show the date of proposed repayment and source of the money for it. Keep in mind that you must pay the amount of the loan called *principal*, and the *interest* for the use of the money. Interest rates are figured in percentages; for example, a loan of \$100 at 6 percent interest would mean a total repayment of \$106 if used for 1 year. Interest rates vary somewhat but usually run from 6 to 10 percent on small loans. Repayment at the agreed date is important since promptness in handling debts helps build a good credit rating.

### NOTES ARE CREDIT INSTRUMENTS

If you need \$150 to buy a calf, \$200 to pay expenses on 5 acres of cotton, or \$600 to raise 500 pullets, you may arrange to borrow the amount needed by signing a note at the bank.

A note is a written promise to pay on a specified date the sum borrowed plus interest at a given rate.

The lender writes or furnishes the *written contract*, and one or more borrowers must sign it. Some bankers may require a parent or guardian to sign a note with minor children

at least until a credit rating is established.

To make a note for a considerable sum of money (actually depending on the individual situation) some lenders require either a *mortgage* on the livestock bought or a *lien* (pronounced le'en) on the crop grown.

A mortgage is a legal document which you, the borrower, give with a note as *security* for a debt. Actually, it gives the lender claim to the livestock or property until the note is paid. When the loan is paid, the note is marked "paid" and returned with the mortgage agreement to the borrower.

A crop lien is used when growing crops are offered as security for a loan. Crops are often considered less desirable security because of hazards such as weather, disease and insect pests.

You may obtain other references which describe in greater detail the use of credit instruments. L-264, "Sources of Farm Credit," gives the procedure to follow in getting a loan for various purposes. Also, L-389, "How to Use Your Bank," explains simple banking practices that every 4-H member should know.

HIGH POINT, TEXAS	<u>Feb. 5, 1958</u> Date
<u>Sixty days</u> After date I promise to pay to <del>we</del>	
<u>First State Bank</u> or order at <u>High Point</u> <u>Texas</u> the sum of <u>Ninety and no/100 dollars</u>	
with interest at <u>6</u> percent	
Amount in figures <u>\$ 90.00</u>	<u>Jerry M. Drake</u>

#### SPECIMEN OF SIMPLE PROMISSORY NOTE

#### TEXAS AGRICULTURAL EXTENSION SERVICE

J. E. HUTCHISON, DIRECTOR, COLLEGE STATION, TEXAS